FREDERICK COUNTY AFFORDABLE HOUSING COUNCIL

STUDY OF WORKFORCE HOUSING NEEDS

Submitted by:

Cramer•Crystal
Lipman Frizzell & Mitchell LLC
Montgomery County Housing Opportunities Commission

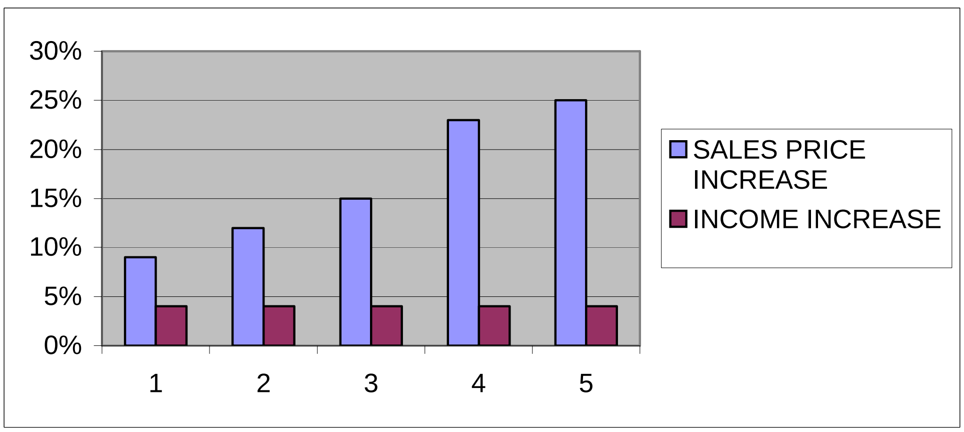
Executive Summary

Findings:

To those living in Frederick County, it comes as no surprise that the County is facing a severe shortage of workforce and affordable housing. Like many neighboring jurisdictions, strong job growth has combined with a red hot real estate market to price many lower and middle income workers out of homeownership, and in some cases, even out of the rental market. The findings of this report document the current difficult conditions for many local residents and project an ever worsening situation.

The supply of housing affordable to typical "workforce" households in Frederick County is diminishing over time as a share of the County's housing market.

Sale price increase versus a flat 3.1% annual income increase - 2001 to 2005



Source: Sales data - MRIS

- The proportion of units affordable to the median income home buying household in Frederick County is projected to decline from 42.4% of the inventory in 2000 to 14.1% of the inventory in 2009. The County will experience a jarring change in character, with new residents largely coming from the upper income brackets and new workers living in other, more affordable, jurisdictions.

- The number of units affordable to extremely low wage households (those with incomes below 30% of the area median income) is projected to decline from 25.4% of the inventory of rental units in 2000 to 20.1% of the inventory in 2009. This segment of the population, which includes many seniors and is often only a step or two from homelessness, will only see existing problems worsen in the years ahead. A significant portion of the current supply of affordable rental housing relies on subsidies from the federal and state government. Were any of these rental communities to suffer cuts in funding subsidy or suffer conversion to market rate housing, the supply of rental units affordable to the lowest income households would be diminished even more. Furthermore, escalating single-family values puts pressure on the scattered-site rentals, which are 50% of the overall rental stock, to convert to owner-occupancy. This implies an even greater decline in the number of rental units that are affordable.

Already many local residents can not afford to purchase their own homes at today's prices. If changes are not made, many of their children will not be able buy a home or rent an apartment in their home county.

Summary of Recommendations:

There are a variety of barriers to the creation of an adequate supply of affordable housing for Frederick County residents. The County must therefore employ multiple strategies if it is to successfully address this shortage. Recommended strategies to increase the supply of affordable housing in Frederick County include:

- Frederick County should work regionally to address the shortage of affordable housing. The County should maintain membership in Wash COG (Washington Council of Governments), but it should also explore other avenues for working collaboratively with neighboring counties. Jointly, counties can better leverage additional State resources. The County might also consider taking the lead in organizing a regional housing conference with other Maryland Counties, the District and Virginia.

- Implementing County policies and programs that allow for ongoing residential development sufficient to accommodate the projected growth of the County's population. Specifically, the County should support proposed legislation to replace impact fees with excise fees, structured to allow sufficient residential development to meet the County's growth needs. It should also work with communities in order to increase understanding of the housing problems facing the County and ensure that no residents suffer from housing discrimination.

- Identifying sources of capital to provide "gap" funding to make financially feasible the creation of an increased supply of affordable homeownership opportunities and rental housing. Creating affordable housing requires public resources, in one form or another, where market rate housing generally does not. Sources for this funding need to be explored and maximized.

- Increase the capacity of nonprofit developers. Often it is nonprofit developers who create, operate, and maintain workforce and affordable housing. The County should make efforts to enhance their capacity to create new housing and to increase the services they provide.

- Strengthening and expanding the County's MPDU Program. The MPDU program is a promising effort to harness the power of the private sector to meet the housing needs of local workforce residents. The program can be improved by streamlining processes and providing mechanisms to ensure that all provisions are fully implemented. For example, efforts should be made to allow for the acquisition of the full 40 percent of MPDU units that are set aside for the Affordable Housing Commission and nonprofit developers.

Background

The Assignment:

In the fall of 2004 a Request for Proposals (RFP) was issued by the Affordable Housing Council acting on behalf of Frederick County. The RFP called for a consultant to produce a Workforce Housing Needs Study, to provide technical assistance in the formation of an Affordable Housing Commission, and to assist with the implementation of the Moderately Priced Dwelling Unit (MPDU) provisions of the Frederick County Inclusionary Zoning Ordinance. The Affordable Housing Council (AHC) is jointly appointed by the Board of County Commissioners of Frederick County and the Frederick City Board of Alderman.

The team of Cramer•Crystal, Lipman, Frizzell & Mitchell LLC (LF&M), and the Montgomery County Housing Opportunities Commission responded to this RFP. The team was awarded the contract and began work in March 2005. This Workforce Housing Needs Study fulfills the first work product of the contract. The study includes two principal parts: Part One is an analysis of housing needs. Part Two identifies barriers and potential solutions to increasing the supply of affordable housing in the County.

The Team:

Each team member contributes different skills and experiences and all three are veterans of the affordable housing industry.

Cramer•Crystal has created numerous nonprofit housing development organizations, conducted housing assessments and managed work teams. Lipman Frizzell & Mitchell LLC is one of the most experienced real estate market and appraisal firms in Maryland. Montgomery County's MPDU ordinance is the most productive in the Country and the Housing Opportunities Commission has been involved with the program, purchasing units, since 1978.

David Cramer, President, is the lead consultant for Cramer•Crystal. Joe Cronyn, Partner, is the lead for Lipman Frizzell & Mitchell, LLC (LF&M). Peter Engel, Deputy Director of Real Estate Development is the lead for the Housing Opportunities Commission.

The Method:

Part One used multiple economic and demographic data sources to perform a "market-based" analysis, estimating 2004 (based on the 2000 Census), and projecting 2009 affordability for both homeownership and rental housing. The analysis is based on *household income* rather than *worker income* since many workforce households in the County have more than one wage earner. Part Two is based on interviews of housing related stakeholders in Frederick County, the consultants' experience, and a literature review of solutions used in other jurisdictions.

Table of contents

Part One - Frederick County Workforce Housing Needs Study

A. Introduction

There has been abundant evidence over the last several years that the cost of housing in Frederick County has risen to unaffordable levels. Newspaper articles, individual complaints, and people simply shaking their heads over the "what the neighbors sold their house for" all indicate that rising costs have outstripped increases in incomes.

This study goes beyond the anecdotal evidence. It thoroughly examines available housing data, documents the recent spike in housing costs, and identifies the gaps in the County's supply of affordable housing. It discusses the market forces impacting Frederick County and extrapolates from today's trends to determine the housing shortages that will face future residents and workers. The study is intended to serve as a reference document for future planning.

Conclusions are drawn based on a comprehensive analysis of trends in the homeownership and rental sectors of the housing market. Some rental and sales figures may seem much lower than what readers may observe. The figures in this report are from base data that are available within both Frederick County and the surrounding jurisdictions, permitting accurate comparisons.

1. Workforce Housing

"Workforce Housing" is a term which generally refers to the supply of housing affordable to households of moderate means. Those households may have earners who are public servants (police officers, firefighters, teachers), private sector service workers, or other middle-range earners who are critical to the functioning of society. Often such persons must endure long commutes to work because they cannot afford to live in the communities that they serve.

In the following analysis workforce housing is considered to be housing affordable to the typical household buying or renting a dwelling. We gauge affordability based on household income, since the household is the economic consuming unit for housing.

- <u>Homeownership Affordability</u> - The affordability of homeownership is measured in comparison to a household earning median income for Frederick County—half of resident County households earn more and half earn less.

- Rental Affordability - The affordability of rental opportunities is measured in comparison to a household earning 60% of median income for the County—a standard measure in the analysis of market rate rental housing.

While our analysis focuses on household incomes for important demographic and economic reasons, we are nonetheless cognizant of the fact that often the primary (or even the sole) wage earner in a household is in a “workforce” employee category similar to those below:

	Median Wage
Total All Industries - Maryland	$30,175
Police Patrol Officer	$41,800
First-Line Office Supervisor	$41,250
Teacher (Primary, Secondary, Adult)	$34,950
Nursing Aide	$27,675
Retail Salesperson	$19,550
Child Care Worker	$17,025
Waiter/Waitress	$13,975

Source: MD Dept. of Labor Licensing & Regulation, 11/04.

It is our judgment that an analysis of housing affordability in comparison to the individual wage rates cited above does not mirror reality (since many “workforce” households have more than one earner) and will, therefore, not accurately quantify the need for workforce housing in Frederick County.

2. Sources & Methodology

This report uses standard economic and demographic sources. Our estimates and projections are based on data from the U.S. Census Bureau; ESRI Business Information Solutions (ESRI), a recognized national data provider; Maryland Department of Labor, Licensing and Regulation; Woods & Poole Economics; Maryland Department of Planning; Frederick County Department of Planning; and other sources.

We briefly focus on the specific data and methodologies used in each portion of the analysis at the beginning of each section. Where possible, all data has been analyzed according to Frederick County Planning Regions—which then total to a Frederick County sum. The data are inclusive for each Planning Region and the County as a whole; they include both incorporated municipalities and unincorporated areas of the County.

The rate of household growth forecast by ESRI for each Planning Region and the County as a whole is generally consistent with long-term forecasts made by the Frederick County Department of Planning. The allocation of forecasted growth to ownership and renter households uses the same proportions as the 2000 U.S. Census.

In our judgment, the analysis presented here is more “market-based” than parallel studies that address the same issues. The analysis is not better or worse, but its assumptions are different—leading to a different quantification of affordability issues. As a case in point, the Maryland Department of Housing and Community Development (DHCD) recently (December 2004) published Maryland Typology and Workforce Affordable Housing in Maryland, quantifying various aspects of the need for affordable housing in the State generally and also in Frederick County. We believe that study to be a first class analysis. The methodology used here differs from DHCD’s, however, in numerous ways including for example:

- Homeownership Affordability - DHCD calculates affordability indices based on various wage levels (entry-level, median-level and experienced level jobs) in 2000. This understates typical homebuyer household incomes.

- Rental Affordability - DHCD’s analysis of rental housing affordability, for example, assumes that a household can afford to spend no more than 30% of its gross income on total housing expenses (rent plus utilities). Private management companies, however, qualify prospects based on a ratio of 30% for contract rent (not including utilities) at market rate apartment communities. This distinction means that a renter household can qualify for a rent payment at least 10% higher than DHCD might predict—thereby measurably reducing the “affordability gap” in rental housing for the County.

In addition, consistent with the objectives of the assignment, this report has estimated 2004 and projected 2009 affordability for both homeownership and rental housing—offering insight into the changing dynamics of the Frederick County economy and housing market over time. DHCD has only done forecasts regarding the affordable rental housing shortage for the future.

3. Underlying Assumptions and Limiting Conditions

The conclusions reached in a demographic and economic analysis such as this are inherently subjective and should not be relied upon as a determinative predictor of results that will actually occur. There can be no assurance that the estimates made or assumptions employed in preparing this report will in fact be realized or that other methods or assumptions might not be appropriate. Specifically, a significant portion of the current supply of affordable housing relies on subsidies from the federal and state government. Were any of these rental communities to suffer cuts in funding subsidy or suffer conversion to market rate housing, the supply of rental units affordable to the lowest income households would be diminished even more. The conclusions expressed in this report are as of the date of this report, and an analysis conducted as of another date may require different conclusions. The actual results achieved will depend on a variety of factors including the performance of public authorities, the impact of changes in general and local economic conditions and the absence of material changes in the regulatory or competitive environment.

B. Homeownership Opportunities

1. Sources & Methodology

This report analyzes the availability of workforce for-sale housing in Frederick County, historically and through the next five years, using the following data sources and methodology:

- Household Incomes - The consumer unit purchasing a home is the household. This report uses household income as the norm by which to judge home buying capacity, not the incomes of individuals who are members of the household. This judgment is underscored by the fact that a high proportion of Frederick County households are family households, with more than one earner. Realistically, affordability ratios calculated using (higher) household incomes will differ significantly from those using (lower) individual earner incomes.

- Median Household Income - The median household income for each planning region and for the County as a whole is used here as the measure of home buying capacity. One half of all households earn more and one half earn less than this figure.

- Housing Values - The values of all owner-occupied housing units in the County are estimated (2004) and projected (2009) using baseline data from the 2000 U.S. Census and actual market sales trends in recent history. The 2004 estimates are supplied by ESRI. The 2009 projections were made by anticipating a 7.0% average annual appreciation rate, which would be conservative in comparison to recent years of 15% average annual appreciation. The value spectrum includes all homes, those currently for sale and the vast majority that are not.

- Affordability Ratio - This report calculates a household's home-purchase affordability ratio at about 2.5 times its annual gross income, based on an analysis of mortgage finance capacity using current 30-year interest rates and other reasonable terms.

2. Findings

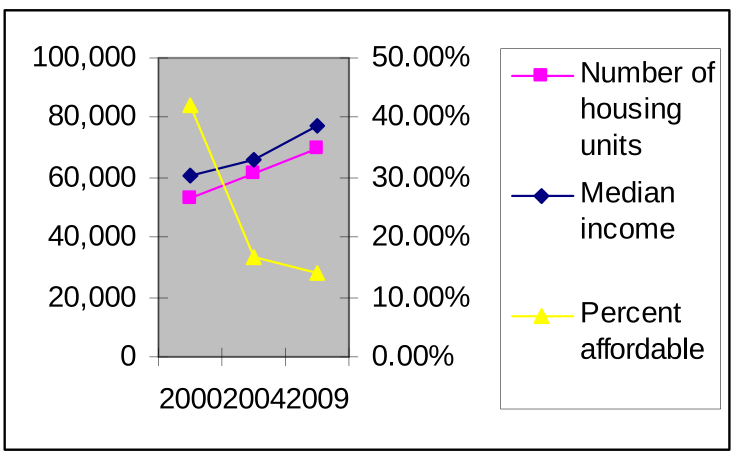
The affordability of for-sale housing for Frederick County homebuyer households is declining over time. Though the owner-occupied housing supply is anticipated to expand by an estimated 16,554 units Countywide during the 2000-2009 period, the number of affordable units will actually decline by 12,729. This means that the proportion of units affordable to the typical home buying household declines from 42.4% of the inventory in 2000 to 14.1% of the inventory In 2009. The data supporting these finding is included in the following tables:

- Home Values and Affordability: 2000-2009 (Table II-1) - In 2000, the County had 53,138 owner-occupied housing units—of which an estimated 22,555 (42.4%) were affordable to households earning $60,256, the Frederick County median income. By 2009, it is projected that the homeownership inventory will expand to 69,692 units, but of that number, only 9,826 (14.1%) will be affordable.

Owner–occupied housing units

	2000	2004	2009
Number of housing units	53,138	61,152	69,692
Median income	$ 60,256	$ 66,164	$ 76,943
Percent affordable to median income family	42.4%	16.5%	14.1%

Source: ESRI, 2005



- Home Values: 2000-2009 (Tables II-2, -3, -4) - The median value of an owner-occupied home in Frederick County increases from $160,961 in 2000 to $326,952 in 2009. Most new units are projected to be added at the upper end of the price range, but significant appreciation has also occurred within the existing housing stock due to the inability of supply to satisfy demand. It must be noted that, at this point in time, the 2009 value projections seem to be on the conservative side. This judgment is evidenced in the fact that the bulk of the run-up in values is estimated to have already occurred in the 2000-2004 period. Urbana is estimated to have the highest values, while Thurmont and Frederick City have the lowest values. Frederick City contains over one-third (36.4%) of the County's homeownership stock.

	2000	2004	2009
Median value	$ 160,961	$ 242,187	$ 326,952
Annual percent increase		13%	7%

Source: ESRI 2005

Household Incomes: 2000-2009 (Table II-5) - The median household income increases from $60,256 in 2000 to $76,943 in 2009—an average annual growth of 3.1%. This is solid growth as compared to anticipated Maryland and national norms, but not nearly equal to the pace of housing appreciation. Urbana and New Market household income statistics outperform the County's, while Frederick City's and Thurmont's lag. These figures are estimated and projected by ESRI, a nationally recognized data provider. These figures differ from HUD's median income (MFI) calculations for the Washington, D.C. region, which are adjusted by family size.

C. Rental Opportunities

1. Sources & Methodology

This report analyzes the availability of workforce rental housing in Frederick County, historically and through the next five years, using the following data sources and methodology:

- Renter Households - Estimated 2004 renter households and projected 2009 renter households in all planning regions and the County are based on 2000 U.S. Census data. We assume that the 2000 proportion of renters will remain constant, applying that proportion to the household growth forecast for each level of geography. This method is likely to somewhat overstate the number of renter households since the vast majority of new housing units being added during the 2000-2009 period are for-sale. The number of renter households is defined as equal to the number of occupied rental units in the market.

- Renter Household Incomes - Based on 2000 U.S. Census and industry standards, this report estimates that the typical renter household earns up to 60% of area median household income (AMI). We have used 60% AMI, adjusted to 2004 and 2009 time periods, in our affordability and other calculations. We also analyzed the need at 30% AMI.

- Contract Rents - The 2004 contract rents and projected 2009 contract rents, are estimated, based on 2000 U.S. Census data, as inflated at the average rate of 3.0% per year. We believe this rate of appreciation to reasonably reflect what has happened (and will likely continue to happen) in the market. The rent spectrum includes subsidized, Low Income Housing Tax Credit and market rate units. Units are located in professionally managed multifamily communities, but also in privately owned scattered-site locations. Fifty percent of rental units in Frederick County are scattered-site units, many not professionally managed. These typically have lower rents than professionally managed rental communities and may account for the fact that anecdotal reports of rents in the County indicate a higher annual rental increase.

- Rent Affordability - Multifamily industry standards assume that a renter household can afford to spend up to 30% of its gross monthly income on contract rent (i.e., rent paid to a landlord that does not include utility payments). This norm is looser than the HUD norm, which considers a household to be housing-cost-burdened if it is spending more than 30% of income on gross rent (i.e., all shelter expenses including utilities).

2. Findings

The affordability of rental housing for Frederick County renter households is declining over time. Though the rental supply is anticipated to expand by approximately 4,000 units Countywide during the 2000-2009 period, the number of affordable units will increase by only 1,483. This means that the proportion of units affordable to the typical renter household declines from 52.6% of the inventory to 49.5% of the inventory. The data supporting these findings is included in the following tables:

- Rents and Affordability: 2000-2009 (Table III-1) - In 2000, the County had 16,238 occupied rental units—of which 8,549 (52.6%) were affordable to a typical renter household earning 60% of the Frederick County median income By 2009, the rental supply expands to 20,280 units, but of that number only 10,032 (49.5%) will be affordable.

- Contract Rents: 2000-2009 (Tables III-2, -3, -4) - The median rent in Frederick County increases from $633 per month in 2000 to $819 in 2009. Most new units are projected to be added at the upper end of the price range, but a significant supply of subsidized units remain with residents paying no or limited rents. Approximately one half of the County’s rental supply is in privately owned scatter-site single family units. Frederick City contains over two-thirds of the total rental supply in all periods. Note that these rents differ from HUD’s FMRs which are based on the entire Washington, D.C. metropolitan area.

- Household Incomes: 2000-2009 (Table III-5) - The typical renter household income increases from $36,154 in 2000 to $46,166 in 2009. The regions with the lowest household income levels are Thurmont and Frederick City. The regions with the highest household income levels are Urbana and New Market.

- Low Wage Earners - This report also analyzes the affordability of rental housing for households earning 30% of Frederick County median income--$19,949 in 2004, the level of retail sales or child care workers. Realistically, there are many single earner households in the County that earn at this near-poverty level (though it is almost double the income which a minimum wage worker might earn in a year). The supply of rental units affordable to these households will decline from an estimated 4,133 units (25.4% of supply) in 2000 down to 4,075 units (20.1% of supply) in 2009. Approximately 30% of the households earning<30% of median income are seniors. The table below summarizes our analysis:

Rental Units Affordable to Low Wage Earners			
	30% area median income	**Units Affordable at 30% of household income**	**% Of Inventory**
2000	$18,077	4,133	25.4%
2004	$19,849	4,089	23.3%
2009	$23,083	4,075	20.1%
Change 00-09	+$5,006	-58	-5.3%

Source: Calculations by Lipman, Frizzell & Mitchell LLC

- The analysis assumes that the existing subsidized housing stock (e.g., public housing and project-based Section 8 housing), affordable housing stock (e.g., certain Low Income Housing Tax Credit units) and Section 8 housing voucher programs remain intact. Were any of these programs to suffer cuts in funding from HUD or suffer conversions to market rate housing, the supply of rental units affordable to the lowest income households will be diminished even more. It is also assumed that additions to the housing supply will typically be market rate units (at the top end of the rental market), with the few new subsidized and affordable units at best replacing a fraction of the units which are taken out of the affordable inventory due to rent increases, demolition or other reasons. It should also be noted that these estimates assume that the proportion of rental housing in the total housing inventory remains constant. Anecdotal information would indicate, however, that with increases in overall homeownership values, many scattered site rental properties (which are 50% of the total supply) are being sold by their investor-owners to owner-occupants, diminishing the number of rentals in the overall housing supply.

- Senior Rental Housing - In general, both in Frederick County and elsewhere, the greatest need for independent living senior apartments is typically among the lowest income seniors—most of whom have never owned a home. Those households have fixed incomes (often only Social Security) and few assets. ESRI estimates (Table III-6) that there are 4,288 senior households in Frederick County in 2004 earning less than $25,000 per year—about one-third (33.2%) of all seniors. Indeed 2,192 senior households (17.0%) have incomes less than $15,000. The greatest unmet demand for senior housing, then, is not at the “market rate” end of the rental market but rather at the subsidized (e.g., HUD 202) and affordable (e.g., Low Income Housing Tax Credit targeted to 30%-50% AMI households) end of the market. For the 81.5% of seniors (age 65+) who are homeowners--should they need to move to a more supportive living situation, sale of their homes will most often provide them with sufficient cash equity to facilitate their transfer to a CCRC (Continuing Care Retirement Community) or similar high quality market rate environment.

D. Specific Production Requirements

The Affordable Housing Council’s goal is to expand affordable housing in Frederick County. The current supply of affordable housing is inadequate. Based on this study’s conservative analysis, just to maintain the supply of workforce housing in Frederick County at a constant proportion within the housing inventory from 2004 through 2009, the following numbers of affordable units must be produced at affordable pricing levels:

1. For-Rent Units affordable to households earning 30% of County median income

- In order to maintain a constant proportion through 2009, an additional 650 for-rent units priced at/below $496 per month ($ 2004) have to be produced (4,725 – 4,089 = 650) for the five year period at 130 per year.
- 4,089 units (23.3%) are affordable in 2004
- That number decreases to 4,075 units (20.1%) in 2009
- Total number of rental units increases from 17,534 to 20,280 during period
- 23.3% of 20,280 is 4,725 units
- 2BR units in a garden-style multifamily format are the product most demanded
- Seniors in greatest need are included in the above projections. One BR units in elevator-served multifamily buildings are the product most demanded.
- Six hundred fifty units will be required to meet the need for market rate rentals for those earning 30% of the median income. These units will not necessarily meet the needs of households earning less than 30% of the

median income – i.e. those living solely on social security. These household will require some form of subsidy.

2. <u>For-Rent Units affordable to households earning 60% of County median income (Table III-1)</u>

- In order to maintain a constant proportion through 2009, an additional 60 for-rent units priced at/below $992 per month ($2004) have to be produced (10,092 – 10,032 = 60) for the five year period at 12 per year.
- 8,725 units (49.8%) are affordable in 2004
- That number increases to 10,032 units (49.5%) in 2009
- Total number of rental units increases from 17,534 to 20,280 during period
- 49.8% of 20,280 is 10,092 units
- Sixty units will be required to meet the need for market rate rentals for those earning 60% of the median income. These units will not necessarily meet the needs of households earning less than 60% of the median income – i.e. those households with only one lower wage worker. These household may require some form of subsidy.
- 1BR and 2BR units typically in a garden-style multifamily format or sometimes in scatter-site town home/condominium formats are the product most demanded

3. <u>For-Sale Units affordable to households earning County median income (Table II-1)</u>

- In order to maintain a constant proportion through 2009, an additional 1,674 for-sale units priced at $163,425 ($2004) have to be produced (11,500 – 9,826 = 1,674 for the five year period at 335 per year.
- 10,091 units (16.5%) are affordable in 2004
- That number declines to 9,826 units (14.1%) in 2009
- Total number of ownership units increases from 61,152 to 69,692 during period
- 16.5% of 69,692 is 11,500 units
- 3BR units typically in a town home or garden-style condominium format (given the price-positioning of the product) are the product most demanded

E. Neighboring Jurisdictions

The expansion of the Washington-Baltimore CMSA (Consolidated Metropolitan Statistical Area) into and beyond Frederick County is attributable to the region's dynamic economy, centered on Washington DC as the nation's capital. As such, Frederick County's market pressures needs to be seen from a DC perspective, that is, the pressure for ever escalating prices pushes from DC to its suburbs then exurbs. While part of the DC region, Frederick County forms its own regional dynamic as it creates market pressure into Pennsylvania, Western Maryland and West Virginia.

As housing prices have escalated in Frederick County, there have been increasing new residential construction levels in adjoining jurisdictions. That displacement of demand is demonstrated in factors such as the bottlenecks around Frederick City on I-70 in the morning rush hour. Though this report does not undertake to directly measure the influence of demand displaced from Frederick County to neighboring jurisdictions, we have compiled data that suggests linkages to those housing markets.

Effects on the affordable rental markets in adjoining counties are even more difficult to analyze, but we judge those effects to be relatively more moderate since—as a generalization—households are less willing to endure a long commute for rental housing than for homeownership.

1. Affordability of Homeownership

Homeownership opportunities for Frederick County households earning median income are numerous in adjoining jurisdictions and significantly more affordable in certain of them.

Table IV-1 calculates the scale of the affordable housing supply and the relative affordability of selected adjoining jurisdictions in Maryland, Pennsylvania and West Virginia for 2004. We summarize relationships among the neighboring counties as follows:

Affordable Homeownership in Adjoining Jurisdictions - 2004

	Median Value	**Homes < $163,425***	**% of Inventory**
Frederick County	$242,187	10,091	16.5%
Adams County, PA	$149,176	16,353	58.4%
Carroll County, MD	$229,373	7,864	16.4%
Jefferson County, WV	$161,073	7,297	50.9%
Loudon County, VA	$310,884	4,994	7.4%
Montgomery County, MD	$315,657	26,356	10.9%
Washington County, MD	$154,995	19,890	54.4%

Source: ESRI, 2004 Estimate of Housing Values

*Affordable to Frederick County purchaser at 100% of median income

As calculated above, a Frederick County household earning $66,164 (County median) can afford to purchase a home priced at $163,425 in 2004. Median income figures are estimated and projected by ESRI, a nationally recognized data provider. These figures differ from HUD's median income (MFI) calculations for the entire Washington, D.C. metropolitan area, which are adjusted by family size. We find that

- Affordable Jurisdictions - If they travel to adjoining Adams County, PA, Washington County, MD or Jefferson County, WV they are more likely to find homes in their price range than in Frederick County. In each of those jurisdictions more than one-half of the homeownership supply is estimated as affordable to the Frederick County migrant.

- High Cost Jurisdictions - Conversely, Montgomery and Loudon Counties--jurisdictions closer to the core of the CMSA region--have higher housing costs and an affordable homeownership supply which constitutes a significantly smaller share of the local inventory (7.4%-16.4%).

We note that homeownership demand is already influencing jurisdictions beyond those enumerated. For households able to contemplate longer commutes, for example, Berkley County, WV and Alleghany County, MD beckon where homeownership costs are even lower than Frederick County's immediate neighbors.

2. Migration Patterns

In Table IV-2, we present the Maryland Department of Planning's migration statistics for the Year 2000. These statistics add support to the argument that housing demand is being directed into Frederick County from core jurisdictions in the CMSA (Montgomery County in particular) and is being displaced to adjoining jurisdictions farther out.

In 2000, the Frederick County population grew by 2,898 persons as a net result of migration: individuals taking up residence in the County totaled 11,869 but those leaving the County totaled 8,971. We note the following:

- In-Migration - Montgomery County accounted for more than two-thirds (68.5%) of net migration into Frederick County.

- Out-Migration - Washington County and West Virginia were the two locations receiving the greatest number of those departing the County.

The 2000 migration statistics were chosen to best tie in to baseline 2000 U.S. Census data used elsewhere in this analysis. The 2000 patterns have only grown stronger in subsequent years, as revealed in MDP and IRS data through

2002-2003. For example, migration from Montgomery County has grown in absolute numbers and as a proportion of Frederick County's net growth from migration, as illustrated in the following data:

.

year	Net Migration from Montgomery County to Frederick County	Net Migration to Frederick County	Montgomery Co. net migration as % Frederick Co net migration
1999-2000	1,986	2,898	68.5%
2000-2001	2,528	3,751	67.4%
2001-2002	3,383	4,389	77.2%
2002-2003	3,681	2,317	158.9%

(See Supplement Appendix IV-3)

It can be seen that 1) net migration from Montgomery County has grown from 1,986 persons in 2000 to 3,681 in 2003; 2) the County' net migration from all sources grew to 4,380 persons in 2002, but then dropped to 2,317 in 2003 due, in particular to strong out-migration to Washington County and to other states. Though net migration from Montgomery County has strengthened, the County's net migration--at least for 2003--has weakened. The result is that Montgomery contributed 58% more population to Frederick than the County's entire net gain (2,317) for the year, since it was at the same time losing population to other jurisdictions. It should be noted that, though the Montgomery County migration trend seems to be well established, a one-year reversal in the migration trends for other jurisdictions may be an anomaly and may not reveal the true long-term trend. Tracking this data in future years is recommended.

In addition, out-migration to Washington County increased from 12% to 18%.

Immigration from neighboring Virginia has also increased slightly going from 4.2% in 2000 to 5.2% (682 persons) in 2003.

The affordability of housing in all areas of Frederick County is being affected by the demand pressures generated by the expansion of the Washington Metropolitan Area economy. Examples of Planning Areas that are likely to be particularly impacted include:

- Brunswick - The City of Brunswick is planned to double in size, with major factors being its MARC commuter rail station and demand displaced from Loudon County.

- Thurmont - Assuming that the redevelopment of Fort Ritchie for private sector employment uses in neighboring Washington County commences, the Thurmont area will experience residential growth pressures from the west. This is a rare “counter-cyclical” movement.

- Urbana - The Urbana growth area will continue to be attractive to those currently living in Montgomery County and working in the I-270 Corridor.

F. Conclusions

This report finds that the supply of housing affordable to typical “workforce” households in Frederick County is diminishing over time as a share of the County’s housing market. Though our analysis identifies somewhat different trend lines for homeownership and rental housing markets, nonetheless they are each impacted by demand pressures that have accelerated appreciation. We find in particular:

- Homeownership Opportunities - Though the owner-occupied housing supply is anticipated to expand by an estimated 16,554 units Countywide during the 2000-2009 period, the number of affordable units will actually decline by 12,729. This means that the proportion of units affordable to the typical home buying household declines from 42.4% of the inventory to 14.1% of the inventory.

- Rental Opportunities - The rental supply is anticipated to expand by approximately 4,000 units countywide during the 2000-2009 period, assuming that the proportion of rentals in the overall housing supply remains constant. Nonetheless, the number of affordable units is projected to increase by only 1,483. These numbers are likely optimistic. The number of affordable units may shrink due to decrease in the number of scattered-site units and subsidized units.

- Neighboring Jurisdictions - The declining affordability of the County’s homeownership and rental housing is clearly forcing households to move to less expensive jurisdictions, particularly Adams County (PA), Berkley and Jefferson County (WV) and Washington County (MD). Frederick County workers of moderate means must trade off a longer commute for housing affordability.

In general, while the supply of workforce housing is expanding in absolute terms in Frederick County over the five year study period, the expansion of supply does not nearly keep pace with the demand – resulting in a dramatic decrease in affordability for homeownership units and a decrease in affordability for rental units.

Part Two - Five year plan to increase Frederick County's supply of affordable housing:

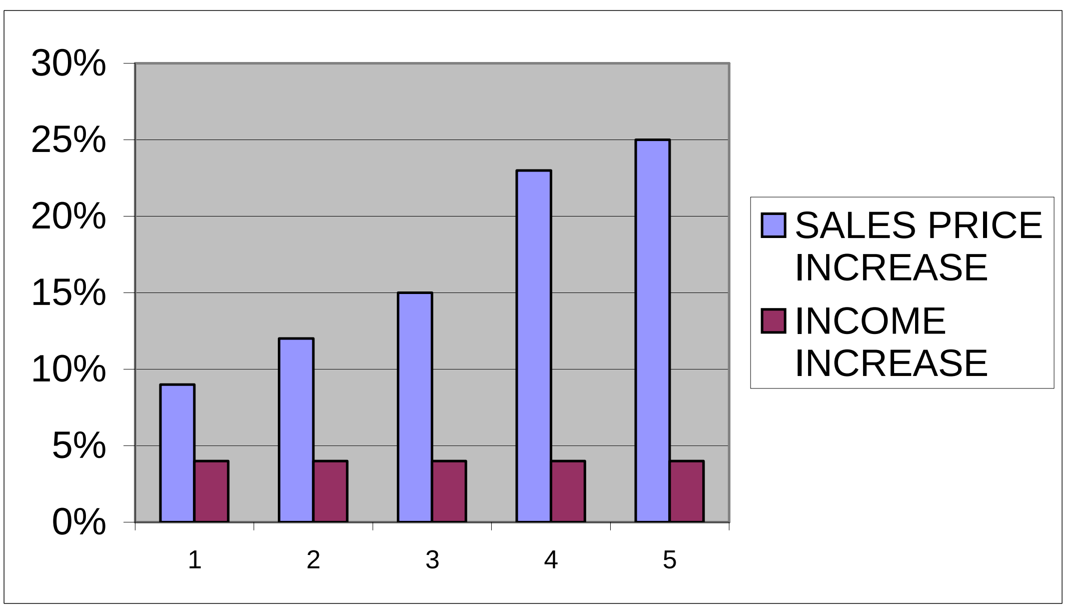
Strategies to alleviate barriers to providing effective affordable housing in Frederick County

A. Introduction

According to the 2000 census, 23% of Frederick County homeowners and 39% of renters paid more than 30% of their income for housing expenses. In the years since 2000, housing prices have increased significantly faster than wages so the need for affordable workforce housing has increased. Affordable housing is an economic development tool; Frederick County's ability to attract and keep jobs and industries is affected by the employee's ability to locate affordable housing.

The following chart demonstrates the dramatic acceleration of sale prices in the past five years. The percent increases each year have escalated as indicated.

Sale price increase versus 3.1% annual income increase - 2001 to 2005



Source: Sales data - MRIS

There are a variety of barriers to the creation of an adequate supply of affordable housing for Frederick County residents. The County must therefore employ multiple strategies to address this shortage. Recommended strategies to increase the supply of affordable housing in Frederick County include:

- Working collaboratively with other counties in the region;
- Implementing County policies and programs that allow for ongoing residential development sufficient to accommodate the projected growth of the County's population;
- Identifying sources of capital to provide "gap" funding and make financially feasible the creation of an increased volume of affordable homeownership and rental housing;
- Increasing the capacity of nonprofit developers to coordinate and support services needed to maintain successful low income home buyers and very low income renters in Frederick County ; and
- Strengthening and expanding the County's MPDU Program.

The production of affordable housing requires three essential ingredients: adequate land and buildings, capital and capacity.

- If the County wants an adequate supply of housing for its citizens at all income levels, it must use its planning and zoning function to make available a sufficient supply of properly zoned land to accommodate residential growth at all income levels. Market forces will supply housing for higher income families if the County issues necessary permits and zoning.
- If the County is to address the growth of housing for its low and moderate income families (and workers), it must develop a means of making capital available to bridge the gap between production costs and prices/rents affordable to this segment of its population.
- The need for housing for moderate and lower income families is not adequately met by profit motivated developers. The County will need to develop means to invest in building the capacity of nonprofit and public development entities to provide this affordable housing. Some of these families will also need assistance through additional support services to be successful homeowners and renters.

This study examines the demand and available supply of workforce housing for "typical home buyers" and "typical renters". What we have not quantified is the demand of those with greater affordability needs than these typical households. For those households with a single low paid worker, for those households surviving on disability insurance or other limited fixed incomes, and for seniors whose only income is social security, a greater gap exists and greater subsidy is required. If inroads are to be made in the already-existing shortage of housing for people with incomes below median for homeowners and 60% of median for renters, then greater efforts must be made.

The tools identified in this report will enable Frederick County to better address the needs of homebuyers earning at least the median income, and renters earning 60% of the median household income. Rather than addressing the needs of those households requiring subsidies as a separate market, we believe that once the following recommendations are implemented, the housing created can be made available to those with significantly lower incomes by layering additional funding such as second mortgages and rental assistance. The first step, as indicated, is the land, capital and capacity to meet the affordability needs for workforce housing -- housing for “typical” households.

B. Encourage Residential Development Sufficient to Accommodate the Projected Growth of the County’s Population

Affordable housing is one of the major challenges to Frederick County’s future.

1. Regional approach

Frederick County’s need to address workforce and affordable housing issues is not unique. Most other jurisdictions in the Washington region are experiencing similar booms in both population and real estate prices. Traditional commuting patterns have been drastically altered, with many D.C. area workers living in Pennsylvania and West Virginia. At the same time, the region’s economic divide, with wealthier residents tending to live in the western half of the DC region and poorer residents in the eastern half of the DC region, continues, causing increased traffic congestion every morning and evening.

Clearly the problem is regional. In order to be effective, the scale of solutions and programs must be at least as large as the scale of the issues they hope to address. Otherwise, the County’s efforts will be only reactive. Frederick County should begin efforts to work regionally in several ways.

- The County should maintain membership in Wash COG (Washington Council of Governments) through which linkages and advocacy can be maintained and advanced.

- The County should approach Montgomery, Washington, Carroll, and perhaps other immediate neighboring Counties to discuss mutual problems and solutions. Creating a balance between jobs and housing would be easier at the larger level than it would be in a single county.

- Together with its neighbors or individually, Frederick County should approach the State to look for additional resources to address housing shortages at the larger level. Together, the Washington suburban counties make up more than half of the State's population. Existing resources should be channeled to the region and new resources would more likely be made available to a broad cohesive group of constituents.

- The County should take the lead in working with the State to organize a joint housing conference with the District and Virginia. Alexandria, Arlington, Loudon and Fairfax Counties all are struggling with high housing costs and have active housing programs. The District is seeing gentrification at levels high enough to cause consideration of a mandatory MPDU program. Such a joint conference would be unique in the area.

While a regional approach by itself cannot magically cure housing shortages and rapidly escalating housing costs, it can produce policies with coordinated solutions, replacing the scattered effect of each County attempting its own solutions.

2. Tax Policies

The County should consider modifying tax policies that increase the difficulty of producing affordable housing. Impact fees that charge a flat amount regardless of size or cost of housing unit are regressive. The County should consider substituting an excise tax based on square footage, a structure that will benefit workforce housing because affordable units tend to be smaller. Howard and other counties have programs that are based on square footage in the form of an excise tax. The county should support a proposal that has been submitted to convert the current impact fee to an excise tax in the legislative package being prepared for the next General Assembly session. The waiving or reduction of impact fees could be used as an incentive to create more affordable housing.

3. Working With Neighborhoods

Local community opposition to increased density and "different housing types" in neighborhoods (NIMBYism - not in my backyard) is an obstacle for the creation of both market rate and affordable housing. If the County wants to increase the supply of housing, it should consider developing community education programs that would discuss anticipated job and population growth and explain the problems that arise from an inadequate supply of housing. The effort to reduce opposition to affordable housing needs to begin long before any particular development is proposed. County staff and officials should attend community meetings to discuss the topic in general terms and actual examples of the problem should be identified. For instance, most local residents are discouraged by the prospect of their adult children being forced to move in order to find affordable housing. Communities around the Country are developing public education campaigns that Frederick County could draw from. For example, the Urban Land Institute's "Reality Check" exercise, which challenges participants to place expected increases in jobs and residents around a map of the region can provide a clear understanding of the scope of the problem in the Washington metropolitan area.

4. Use of County Land

The County should review all publicly owned land to consider which, if any, parcels would be appropriate for use as affordable, workforce, or mixed income housing. If any parcels are deemed to be appropriate, the County should consider development options, including donating or selling the sites to non-profit developers, developing the sites through the Affordable Housing Commission, or other possibilities.

For example, the County has offered two parcels to be considered for the development of affordable housing. Ballenger Creek Pike, a two-acre site located in the County, is zoned R-16, which is the highest zoning density, allowing 30 housing units. This could be considered for use as rental housing for the elderly or families with very low incomes or for use as a SRO (Single Room Occupancy). Because of the size of the site and restrictive parking conditions, resident types with fewer parking needs would be desirable. The site is in a commercial area across from shopping (including a grocery store, a pharmacy, and fast food), and accessible to public transportation and employment opportunities. It is near other residential development, a retirement community and immediately adjacent to an assisted living facility.

Rose Hill Manor, located in the City of Frederick, is a six acre site (15-20 acres if the Parks and Recreation Department's study recommends release of the entire tract for affordable housing) that will require rezoning to make development feasible for senior housing. The layout of the site lends itself to a "Bellcourt-like" development. If the site is expanded to 15-20 acres, a combination of workforce single-family homes and apartments is possible. There are several potential development issues for the Rose Hill Manor site: access to the highway, power line restrictions, newly enacted zoning restrictions, archeological and historical considerations. North of the site is the Rose Hill Manor Agricultural Park; further south is Governor Thomas Johnson High School; it is bounded on the west by US RT15 and RT 26.

5. Antidiscrimination Legislation for Source of Income

State authorizing legislation was passed and signed this year allowing the County to prohibit discrimination in housing based on source of income. The

County Commission is in the process of revising the County's local fair housing provision. Once fully enacted, landlords may not reject tenants based on the source of their income. Landlords often specify the type of income they will consider in qualifying a potential renter. Disability payments, alimony and child support, and housing choice vouchers are often excluded from the calculation, which harms many of those most in need of stable housing. The City of Frederick, Howard, Montgomery and Prince Georges Counties currently prohibit discrimination based on the source of income.

6. Review Adequate Public Facilities Ordinance

It has been about ten years since the County implemented the Adequate Public Facilities Ordinance. Given the current development, housing and employment pressures, it would seem an appropriate time to review the ordinance and examine its impact on development. Have the goals of the law been accomplished over the last ten years? What revisions, if any, might be beneficial in light of the change in real estate prices, the increase in population, and the concomitant development issues? For instance, the County has experienced lower than expected school enrollments in certain areas. Should this result in a change in the law's standards?

In the context of affordable housing, it is important that the Adequate Public Facilities Ordinance not unduly restrict the creation of rental and for sale housing for Frederick County's workforce. If necessary, exceptions might be carved out for developments that provide such housing.

Ultimately, the law's effect on development is not well enough understood and should be more closely examined.

7. Issues for Further Study

The County should charge AHC to study further and make recommendations on:

- Linkage Zoning Ordinance

  Review and suggest consideration of a linkage zoning ordinance or another mechanism to tie approval of commercial, retail and industrial development to aid in developing adequate affordable housing.

  Linkage zoning ordinances generally tie development to the problems that the development creates. In this case, new commercial, retail, and industrial facilities often bring in relatively low paying jobs. In order to win zoning approval, new business could be required to create or fund new housing development that would be affordable to the people in the new jobs that would be created.

Linkage zoning has been used for the provision of public facilities such as roads and sidewalks, public art, and has even been considered for child care.

- Right of First Refusal

The County should consider legislation that would grant AHC or its designees a "right of first refusal" on residential rental properties being sold in the County. This right would allow AHC to purchase such properties using the terms of the contracts worked out by private parties. AHC would be required to meet virtually all the terms of the sales contract so that the seller would be made whole. There would need to be some modification to the timing of the contract to allow an additional period for due diligence and closing.

Montgomery County has a " right of first refusal" ordinance. It applies only to properties built before 1981, and allows the owner to avoid the requirements of the ordinance if the buyer agrees to maintain the property's rental use and limit rent increases for a specified period.

While use of the right of first refusal has been the exception rather than the rule in Montgomery County, it has provided the County with a means to purchase properties already carrying income restrictions, preserve the existing affordable housing portfolio, and obtain housing that serves lower income residents without restrictions. It has also assisted the County in working with buyers to keep rents affordable, at least for a few years.

- Condominium Conversion Fee

The County should consider legislation that would charge a condominium conversion fee on a per unit basis. Condominium conversions remove rental properties from the market and often convert scarce affordable rental housing units to market rate for sale units. The funds generated by the conversion fee could be dedicated to affordable housing. Condominium conversions have not occurred on a large scale in Frederick County yet. The level of the fee should be further discussed by the AHC.

C. Enhance Sources of Capital Funding to Increase the Supply of Affordable Homeownership and Rental Housing

Frederick County developers and housing agencies utilize a variety of federal, State and local resources as subsidy sources to make housing affordable. Except for the City of Frederick, which is a CDBG entitlement jurisdiction, most federal funds come through the State. The private sector also provides some resources. Lenders offer special down payment programs of their own and offer access to the Federal Home Loan Bank Affordable Housing Fund down payment programs. Churches often allocate resources to fund homeless programs such as assisting with security deposits. Frederick County is fortunate to have a County funded program, called the Affordable Housing Council Deferred Loan Program (AHCDLP), which receives an annual allocation from the general fund. On February 2, 2005, the Review Panel for the Frederick County Grants for Human Services Program recommended that the AHCDLP allocation be included as part of the Frederick County Housing Department's budget. A new fund, called the Housing Initiative Fund, has been mandated by the MDPU Ordinance and is funded through the operation of the MPDU program. These two local funds provide an opportunity for creativity and the leveraging of additional funds. The County should consider:

- Consolidating all housing funds into one program utilizing the criteria of the AHCDLP (Affordable Housing Council Deferred Loan Program) with some modifications.

- Continuing existing Frederick County funding for the AHCDLP from general funds.

- Using one time only County funds to provide seed capital for the loan program. A large source of capital will be needed to fully utilize the MPDU 40% provision discussed in Section E. If an average affordable town home in Frederick County costs $174,000, a total of $55,680,000 in capital will be needed to purchase 320 of the anticipated 800 MPDU units (or 40%) produced over the next five years. A significant portion of this $55.7million will need to be in the form of investor equity, grants and deferred loans. A greatly expanded housing fund will help to address this subsidy need.

- Create a dedicated revenue source for this consolidated housing fund. Nationally, most of the best revenue sources for housing trust funds are housing related, such as closing recordation fees. Frederick County should identify the amount of funds that should be generated annually before investigating potential funding sources.

- Update income criteria for the AHCDLP's Impact Fee Deferral Program by raising the income limit from 40% to 60% of median income. The AHCDLP provides limited assistance to developers of affordable housing to defray the impact fee cost.

- Utilize one time only housing administrative funds of $100,000 plus $4,000 in loan repayments to fold into the consolidated housing fund or for such immediate, one time only housing related activities as:

    - Creating a website of housing resources, including program information and property listings. This is more thoroughly discussed in Section D

  - Funding for support services such as a consolidated housing counseling program

- Investigating the creation of a Section 8 Homeownership Program

- Applying for additional Housing Choice Vouchers in response to any "Notices of Funding Availability"

- The County should make a concerted effort to access State funding for every development it supports. For many State programs, County approval is necessary; for others it is helpful. The County can groom projects, prioritize them, and back with a unified voice those that it favors. This level of support is generally not matched by other jurisdictions and will give projects the best chance of winning State funding competitions.

- Even with cutbacks over the last five years, Maryland provides a number of generous programs for the production and support of various types of affordable housing. There is State support available for transitional housing, elderly and family affordable rental housing, first time homebuyers, government owned rental housing, and more. Frederick County should identify all possible sources and aggressively pursue them. As municipalities within the County apply for State funding, the County should coordinate its efforts, creating mutual support for new development.

See appendix for a listing of State programs

D. Increase the Capacity of Nonprofit Developers

Current nonprofit housing developers, including Interfaith Housing Alliance, special needs organizations and elderly housing providers, offer sufficient capacity with currently available resources. However, with the implementation of the MPDU program, it may be necessary for the newly created Affordable Housing Commission to take on the role of developer with in-house development capacity or as a partner with others.

Provision of a broad spectrum of housing related support services will markedly increase the likelihood that buyers and renters of these affordable units will be successful.

Frederick County should work through the Frederick County Department of Social Services or Frederick Community Action Agency to create a support services network for residents of MPDU scattered site rental units and other scattered site moderate and low income housing in the County. Currently, half the available rental units in the County are scattered site and not in multi-family complexes. The public is likely to scrutinize renters of MPDU units interspersed with market-rate homeownership units, and it is important to provide some assurance that MPDU tenants succeed as accepted tenants and neighbors.

A consolidated homeownership counseling center should be created to assist purchasers of MPDU units. Programs should include pre-purchase counseling and post-purchase (default prevention) counseling. Counseling should be available in Spanish. Current counseling capacity includes:

- Frederick City Housing and Community Development Office, which provides counseling;
- Frederick Community Action Agency (FCCAA), which is HUD certified as a housing counseling agency but currently has no funds to operate a program and refers clients to the Homestore in Hagerstown;
- Frederick City Public Housing Authority (FCPHA), which provides certified counseling to its own clients;
- Interfaith Housing, which provides counseling to its Self Help clients.

Down payment assistance includes:

- The City's "Sold on Frederick II" 2nd Mortgage Program
- The County's impact fee loans and Frederick County Homeownership Program;
- Lender and realtor programs.

The County should consider support in the development and maintenance of a housing information website. This website would serve several purposes. It would provide listings of available affordable rental and for sale housing. Socialserve.com currently provides this service to over 500 communities nationwide in both English and Spanish. Cleveland is currently paying $150,000 to set this system up. It could also be the source for MPDU information and forms, along with information about related programs and resources. Consideration could also be given to updating housing related websites in the County.

E. Strengthen and Expand the County's MPDU Program

Frederick County created an MPDU program in 2002. The 7,538 planned residential units in the development pipeline covered by the ordinance should produce 800 affordable MPDU units in the next five years in the unincorporated areas of the County. This level of production surpasses the affordable housing developed in the entire County in the past five years using federal, State, and local subsidy sources. Because the incorporated municipalities produce half of the development activity in Frederick County, this figure could potentially double for the entire County if the municipalities adopt an MPDU-like strategy.

The MPDU program therefore represents the most productive strategy for providing workforce housing in Frederick County. The option of a density bonus in the MPDU program reduces the cost of land and makes it possible to produce homeownership units for families earning up to 70% of median ($62,510 for a family of four in 2005) and rental units for families earning up to 50% of median ($44,860 for a family of four in 2005). Additional subsidies would make it possible to also serve lower income households in the MPDU program.
Frederick County has implemented a significant MPDU program. What follows are recommendations to strengthen it.

1. <u>Encourage Local MPDU Programs</u>

The incorporated municipalities in Frederick County are responsible for more than 50% of the development activity in Frederick County. Frederick County should develop incentives that would encourage these incorporated jurisdictions to adopt an MPDU Ordinance or similar affordable housing initiative. Frederick City includes a recommendation for an MPDU program in the 2004 comprehensive plan. If Brunswick and other incorporated towns currently negotiating development approvals required an affordable housing (workforce, special needs, elderly etc.) component in future developments, they would contribute to the increased supply of affordable housing in the County without an actual MPDU requirement.

If any of the municipalities adopt MPDU ordinances, administration of the MPDU program should be consolidated into one entity.

2. <u>Acquire MPDU Units</u>

Frederick County should encourage the Affordable Housing Commission and nonprofit housing corporations and organizations to acquire the allowable 40% of all MPDU units in each covered development. Current County MPDU pipeline developments are all homeownership; even the multifamily developments are condominiums not rentals. MPDUs may become the only source for new rental housing, given the dearth of multifamily development in the pipeline anywhere in the County. Utilizing City and County project-based Housing Choice Vouchers would allow the Affordable Housing Commission or nonprofit housing groups to rent these units to lower income households.

Potential nonprofits include:

- Interfaith Housing Alliance for homeownership and family rental, and in partnership with special needs providers;
- Frederick Community Action Agency or Friends for Neighborhood Progress for rental and lease-purchase;

- Groups such as Way Station, Heartly House, and Advocates for Homeless Families for special needs housing.

3. Streamline Annual Update Process

Frederick County's MPDU program was created in 2002, and the Board of County Commissioners has just passed updates to cost and affordability levels. The current procedure for updating the cost indices is cumbersome and time consuming; the County should implement a streamlined procedure for annual updates. Consultant recommendations for such a procedure will be proposed subsequent to the Housing Study.

F. **Conclusions**

Over the next five years, there are several potential sources of production to address the need for additional elderly and workforce housing. Sources include MPDU program units, the development of county-owned land and privately proposed developments.

While most projected housing development is for sale housing, there continues to be an unmet need for rental housing, especially for households with lower incomes. None of the 800 units currently in the County's development pipeline are either family or elderly rental units. The demand for rental units includes seniors who do not have the assets to afford retirement communities, new workers including immigrant families, and the families of workers in lower paying jobs (sales clerks, back office processors, etc.). To address the need for rental housing, priority should be given to the Affordable Housing Commission and other nonprofits exercising their option to purchase up to 40% of the MPDU units. Where feasible, County-owned land should be used for rental developments and other private developers should be supported in their efforts to produce rental housing. The five year production level for rental units is projected as follows:

- MPDU program - 40% of the projected 800 units in the development pipeline equals a potential 320 units.
- County-owned land - Ballenger Creek has the potential for 30 units. More units can be realized if Rose Hill is available.
- Other developers - may propose elderly or family rental developments from time to time.

All of these developments will require enormous amounts of capital in the form of grants, equity or non-amortizing debt to make them affordable to targeted workforce and elderly households. To bring down the cost of MPDU Program units will require significant subsidy over the next five years. Several subsidy sources should be considered including:

- County and City sources,
- State financing sources, and
- Accessing other federal and foundation sources.

County:

- Expanding the County's AHC Deferred Loan Program or its replacement by a one-time infusion of County revenue,
- Adding City revenue,
- Creation of a dedicated revenue source, such as document fees, and
- MPDU paybacks.

State of Maryland:

Even with cutbacks over the last five years, Maryland provides a number of generous programs for the production and support of various types of affordable housing. The County should make a concerted effort to access State funding for every development it supports. For many State programs, County approval is necessary, for others it is helpful. The County can groom projects, prioritize them, and back with a unified voice those that it favors. This level of support is generally not matched by other jurisdictions and will give projects a better chance of winning State funding competitions.

New sources:

Creative use of little known and little used sources such as the New Markets Tax Credits and converting Housing Choice Vouchers to Project-based Vouchers.

In addition to existing for-profit and non-profit development capacity, the need for higher production levels may warrant expanding the role of the Affordable Housing Commission to include housing production. The Commission could:

- Assume the role of a stand alone developer,
- Operate in partnership with other existing developers, such as Interfaith Housing Alliance, and special needs providers, and
- Act as a pass through for MPDU units.

Appendices

Appendix I - State Housing Programs

State programs generally break down along two fault lines: Bond or Other Funds and Homeownership or Rental. The following chart covers many of the State's funding mechanisms.

	Homeownership (Single Family)	**Rental (Multifamily)**
Bond Funded	• Maryland Mortgage (First Time Homebuyers)	• Multifamily Bond • Partnership Rental Housing
Other State and Federal Funds	• Down Payment and Settlement Expense • Homeownership for Persons with Disabilities • State Homes for Sale • Maryland Housing Rehabilitation	• Rental Housing Funds • Low Income Housing Tax Credit • HOME Investment Partnership • Maryland Affordable Housing Trust • Office and Commercial Space Conversion • Group Home Financing • Shelter and Transitional Housing

<u>Homeownership Programs</u> – These programs are designed to increase the homeownership rate in Maryland by making single family homes more affordable to low and moderate income families. The bond-funded Maryland Mortgage Program can provide hundreds of millions of dollars in home mortgages, while the other programs, funded by State revenues, have approximately $7.5 million in FY 2006.

1. Maryland Mortgage Program – Provides below-market rate loans for "first time homebuyers," a group that can include people who have owned a house previously, throughout the State. There are both income and purchase price limits, however, they are relatively high, with maximum allowable incomes of up to $125,020 and home prices of up to $452,874. The recently launched "More House 4 Less" program includes a 35-year mortgage product with interest only payments for the first five years.
2. Down Payment and Settlement Expense Program – Provides loans of up to $3,000 at zero percent to cover costs not included in typical mortgage loans.

Loans are made only in conjunction with the Maryland Mortgage Program. The program uses some of the$7.5 million in the State's FY 2006 budget for Homeownership Programs.

3. Homeownership for Persons with Disabilities – Makes loans to families in which at least one borrower is disabled. The program includes income and price limits and carries a three percent interest rate. The program uses some of the$7.5 million in the State's FY 2006 budget for Homeownership Programs.
4. State Homes for Sale -- DHCD owned homes are listed and sold through Long and Foster. There are currently no houses listed in Frederick County.
5. Maryland Housing Rehabilitation Program – Single family homes and one to four unit rental properties are preserved through rehabilitation funds from the program. The program uses a portion of the State's FY 2006 budget of $8 million for Special Loan Programs.

<u>Rental Housing Programs</u> – These programs increase the supply of affordable rental housing by providing low cost financing and equity for the production, acquisition, and rehabilitation of rental properties.

1. Multifamily Bond Program – Provides below-market rate loans for the construction or acquisition/rehabilitation of income restricted rental properties. It is best for projects with mortgages exceeding $5 million. Bond funds include an allocation of four percent low income housing tax credits (see below). Loans are made on a first come/first serve basis and funds are generally available.
2. Partnership Rental Housing Program – Assists the production or rehabilitation of government owned housing. Income limits are lower than for most other programs. Funded at $6 million in FY 2006.
3. Rental Housing Programs – These loans are generally used in conjunction with the Multifamily Bond Program or the low income housing tax credit program. The loans bear interest at rates of between zero and four percent, and can be used for production or acquisition/rehabilitation of income restricted rental properties. Loans are awarded through a highly competitive process – only about one out of every three applications is funded – in an amount of up to $1.5 million. Funded by the State at $13 million in FY 2006.
4. Low-Income Housing Tax Credits – This federal tax credit is administered by the State. It provides equity for the construction or acquisition/rehabilitation of income restricted rental housing. There are two types of credit – one of lesser value (the "four percent credit") that is allocated automatically with the use of tax-exempt housing bonds and the "nine percent credit," which is allocated through the State's competitive process. The State receives upward of $9.5 million annually, which generates over $80 million in equity for housing.
5. HOME Investment Partnership – The majority of the State's allocation of $9.9 million in HOME funds is allocated to the Rental Housing Programs and is awarded along with the Rental Housing Funds. The State's allocation is

generally only spent in non-participating jurisdictions – jurisdictions that do not receive their own allocation. Frederick County is not a participating jurisdiction.

6. Maryland Affordable Housing Trust – The program is funded with interest from escrow accounts held by title companies. It funds up to $100,000 loans and grants for a wide variety of housing needs in two competitive rounds annually. The total amount of funding in each year varies with the escrow funds that are its source, but is expected to be about $1.4 million in FY 2006.
7. Office and Commercial Space Conversion – One of the Rental Housing Programs, it provides funding to convert office or commercial space to rental housing. There is not always funding available for this program. The Francis Scott Key Hotel was converted using these funds.
8. Group Home Financing – Provides financing for group homes that serve special needs populations, including those needing assisted living and the disabled. The program is generally used for acquisition and rehabilitation of single-family homes into group homes. It receives the majority of the Special Loan fund, which was $8 million in FY 2006.
9. Shelter and Transitional Housing – The program funds shelter housing for the homeless and transitional housing that provides temporary shelter and assists individuals and families in finding permanent housing. There is $1 million in the FY 2006 budget for the program.

<u>Miscellaneous Programs</u> – Through DHCD, the State operates a number of other programs, each with its own budget line item. These programs are scattered through different parts of the Department. While they do not always work well together, the State can combine many different resources for priority projects.

1. Community Development Block Grant – This federal pass-through is used in jurisdictions that do not receive their own CDBG funds. While Frederick County does not receive CDBG funds, Frederick City does. The funds can be used for a wide variety of community and economic development purposes, including affordable housing. The State receives $10 million in FY 2006 for the non-entitlement jurisdictions.
2. Community Legacy – The program was designed to help urban neighborhoods, suburban communities and small towns that are experiencing decline and disinvestment. It is funded at $5M in FY 2006. The funds are awarded through a competitive process and it is possible to obtain planning money in order to create community revitalization plans.
3. Neighborhood BusinessWorks – The program is the Department's small business loan program. It provides below market loans and grants of up to $500,000 to small businesses and not-for-profit organizations to locate or expand in designated revitalization zones. There is $6 million in the FY 2006 budget for the program.
4. Historic Preservation Loan Program – Provides loans for the acquisition, preservation and rehabilitation of historic properties. It is funded at $8 million in FY 2006.

Appendix II – Text Referenced Tables

- II-1 Changes in Values and Affordability - Planning Regions and County, 2000-2009
- II-2 Value of Specified Owner-Occupied Housing Units - Planning Regions and County, 2000
- II-3 Estimated Value of Owner-Occupied Housing Units - Planning Regions and County, 2004
- II-4 Projected Value of Owner-Occupied Housing Units - Planning Regions and County, 2009
- II-5 Household Income - Planning Regions and County, 2000,2004,2009
- III-1 Rents and Affordability of Renter-Occupied Housing Units Planning Regions and County, 2000-2009
- III-2 Contract Rent of Specified Renter Occupied Units - Planning Regions and County, 2000
- III-3 Estimated Contract Rents - Planning Regions and County, 2004
- III-4 Projected Contract Rents - Planning Regions and County, 2009
- III-5 Household Incomes - Planning Regions and County, 2000, 2004, 2009
- IV-1 Estimated Value of Owner-Occupied Housing Units - Adjacent Counties, 2004
- IV-2 Migration Flows from IRS Administrative Records Frederick County, 1999-2000

Appendix III – Non Referenced Tables

- 1 Housing Mix by Tenure and Type - Planning Regions and County, 2004
- 2 Household Income by Tenure - Planning Regions and County, 2000
- 3 Sales Prices for Owner-Occupied Housing Units - Planning Regions and County, March 2004-March 2005
- 4 Age of Householder by Tenure - Planning Regions and County, 2000
- 5 Occupied Housing by Structure Type - Planning Regions and County, 2000
- 6 Householder Age by Income - Frederick County, 2000, 2004, 2009
- 7 At Place of Work Employment by Sector - Frederick County, 1980-2030
- 8 Employment and Payrolls - Frederick County, Third Quarter 2004
- 9 Household Size - Planning Regions and County, 2004

Supplemental Appendix – IV -3 Migration Flows